



June 15, 2004

**SUBJECT: Adoption of the FY 2004/2005 Budget for the
Redevelopment Agency of the City of Sunnyvale**

REPORT IN BRIEF

The Sunnyvale Redevelopment Agency (Agency) is required to adopt an annual budget. It is recommended that the Agency adopt the FY 2004/2005 budget as outlined in this report.

BACKGROUND

The Redevelopment Agency was established under the provisions of the community redevelopment laws of the State of California by a resolution of the City Council adopted on November 19, 1957. In this resolution, the City Council declared itself to be the governing members of the Agency.

The Redevelopment Agency Fund accounts for activities of the Redevelopment Project Area, which is primarily the downtown area. This Fund accounts for debt service, capital projects, low-and-moderate-income housing, and general activities of the Agency. Capital projects can be long-term in nature and are often carried over to the next fiscal year. Certain transfers are made into the General Fund for repayment of the Agency's debt. Calculations for this repayment are dependent on the Agency's available resources at the end of the fiscal year, and therefore may differ from budgeted amounts.

EXISTING POLICY[c4]

Section 33606 of the California State Health and Safety Code requires that a Redevelopment Agency adopts an annual budget. Section 1304 of the City Charter requires the City Council to adopt the budget for the upcoming fiscal year on or before June 30.

DISCUSSION

FY 2004/2005 Recommended Budget

Sources of revenue to the Redevelopment Agency for the FY 2004/2005

Recommended Budget are highlighted below:

Revenue	Redevelopment Fund
Property Taxes	\$3,366,185
Interest Income	100,000
<u>Rents and Concessions</u>	<u>1,211,728</u>
Total	\$ 4,677,913

The primary source of revenues to the Redevelopment Agency is Property Tax increment, which is expected to total about \$3.3 million in FY 2004/2005. This amount is net of the shift to the Educational Revenue Augmentation Fund ("ERAF shift") of \$264,116 in FY 2004/2005, as proposed by the Governor's May revision to the State budget.

The Rents and Concessions revenue is received from City of Sunnyvale, for the Sunnyvale Town Center parking structure lease agreement which was signed on May 1, 1977. The lease, as amended, requires the City to pay to the Agency base rental payments on October 1 and April 1 of each year until October 1, 2022. In addition to base rental payments, the City is also obligated to pay all taxes, assessments, administrative costs, certain insurance premiums, certain maintenance costs, and all other such costs in order to maintain the existence of the parking structure or to comply with the terms of the related bond resolutions.

The Agency's expenditure budget consists of one operating program. Detailed below are the proposed expenditures:

Expenditure	Redevelopment Fund
Operating	\$201,143
Debt Service	1,779,749
Agent Fees	18,000
Repayment to City	1,578,712
Capital Projects	897,172
Special Projects	175,000
<u>Transfers Out to General Fund</u>	<u>28,138</u>
Total	\$ 4,677,914

Operations for the Redevelopment Agency have been restructured in the recommended FY 2004/2005 Budget. Activities in the Economic Prosperity program managed by the Community Development Department were all previously reflected in the Redevelopment Agency Fund. Beginning in FY 2004/2005, those activities not directly related to management of the Redevelopment Agency have been transferred to the General Fund. This results in a decrease in operating costs to \$201,143 in FY 2004/2005.

Also included in current requirements are debt service payments totaling \$1,779,749 for the Central Core Redevelopment Project Tax Allocation Refunding Bonds-Series 2003 and the 1998 Parking Facility Series A Certificates of Participation. The Agent Fee of \$18,000 covers the routine administrative and management duties of the trustee, registrar, paying agent and dissemination agent for the debt instruments. The Repayment to City represents repayment to the City of Sunnyvale in the amount of \$1,578,712 in FY 2004/2005 for outstanding loans due to the City General Fund. At the close of FY 2002/2003 the Redevelopment Agency had outstanding loans due to the City General Fund of approximately \$45.9 million. These loans are largely the result of the Redevelopment Agency's inability to raise sufficient tax increment revenue to repay the City for annual lease payments made by the City for the downtown parking structure. The original financial plan established by the City Council in the mid-1970s was turned upside down with the passage of Proposition 13, which stripped the agency of approximately two-thirds of its property tax increment. Since that time, the State has enacted several laws that placed further restrictions on redevelopment agencies. These include capping the time period for collection of tax increment for each redevelopment project area; for Sunnyvale's project area, the final year is currently 2025. More important was the establishment of revenue limits for redevelopment agencies, referred to as property tax increment caps. The revenue limit/increment cap for the Sunnyvale Redevelopment Agency is \$118 million. Under current conditions, it is projected that the Redevelopment Agency will never be able to completely repay the General Fund loans. An in depth discussion on this subject matter is included in the Transmittal Letter of the Recommended FY 2004/2005 Budget.

The Capital and Special projects recommended for the Redevelopment Agency Fund in FY 2004/2005 are as follows:

Capital Projects

- Downtown Public Improvements: In FY 2001/2002 Council approved a capital project for improvements to the Downtown area in the amount of \$1,562,000. These funds were originally generated from the sale of

Parking District property for the Mozart development. This project would fund the design and construction of enhanced public facilities such as, but not limited to, special sidewalk paving, lighting fixtures, benches, landscaping, landmarks, gateways, and wayfinding system. This project currently has a carryover budget of \$1,499,828, which is net of prior years actual expenditures. In FY 2004/2005, \$62,172 has been programmed to replenish the project funding to \$1,562,000.

- **Town Center Demolition:** The Town Center parking structure was built in 1978. On June 2, 2003, the Building Official ordered the second level of the structure to be closed because of functional obsolescence. Because the cost of repair exceeds the value, the structure should be demolished and replaced. Forum Development Group, the potential redeveloper of the Mall, has estimated demolition cost at \$1,165,000. The Mall owns approximately 1/3 of the structure and is responsible for that portion of the cost. The City is responsible for approximately 2/3 of the cost of demolition, or \$800,000, which has been programmed in the Redevelopment Agency Fund in FY 2004/2005.
- **Town Center Parking Structure Maintenance:** Project cost of \$35,000 has been programmed for the maintenance of the parking structure in FY 2004/2005. The City will continue to maintain the parking structure until the Mall redevelopment and parking structure demolition take place. Any remaining unspent maintenance funds will be returned to the Redevelopment Agency 20 Year Resource Allocation Plan Reserve and be available for repayment to the City for outstanding loans due to the City General Fund.

Special Projects:

- **Downtown Development Economic Analysis-Keyser Marston Associates:** The project will fund the analysis of developer proformas and financing strategies which will facilitate downtown development to the benefit of the Agency. The project will also allow Keyser Marston Associates to complete the negotiation of real estate transactions relating to the Town Center Mall and will include the analysis of other potential development projects in the downtown area, such as the Town and Country site. The project has been programmed in the RDA Fund in the amount of \$75,000 for FY 2004/2005.
- **Outside Counsel Services for RDA:** This project will fund the outside legal services for the Redevelopment Agency through the City Attorney. Because of the increasingly complex nature of negotiations surrounding

the downtown redevelopment, a special project was funded for outside counsel services and costs. It is anticipated that significant outside legal services will be needed over the next two years to complete the Town Center Mall project and other potential development projects in the downtown area. Future projects may involve assistance on relocation agreements for sites such as the Town and Country. The project has been programmed in the RDA Fund in the amount of \$100,000 for FY 2004/2005.

One final ongoing expenditure is programmed in the Redevelopment Agency Fund to pay the General Fund for the services of the Agency's Treasurer.

Finally, it should be noted that the Redevelopment Agency is currently unable to make payments of 20% of its tax increment revenues to the Low and Moderate Income Housing Fund because of preexisting debt obligations. Each year, the Agency calculates the contribution that should have been made and books it as a liability in its financial statements. It is currently estimated that when the tax increment cap is reached the liability will total approximately \$19.2 million. State law allows the Agency to continue collecting tax increment after the Project time and increment limits are reached to fund its housing liability. Actual payments to the Low and Moderate Income Housing Fund are projected to begin in FY 2020/2021 and will continue until the liability is paid off.

The FY 2004/2005 Redevelopment Agency Budget Adoption Resolution is included in Attachment A of this Report to Council.

FISCAL IMPACT

Adoption of a budget for the Redevelopment Agency for Fiscal Year 2004/2005 will authorize appropriate expenditures to be made as outlined in this report.

PUBLIC CONTACT

Public contact was made through posting of the Council agenda on the City's official notice bulletin board, posting of the agenda and report on the City's web page, and the availability of the report in the Library and the City Clerk's Office.

ALTERNATIVES

A. Adopt the budget as recommended above.

B. Adopt the budget in an amount other than recommended.

RECOMMENDATION

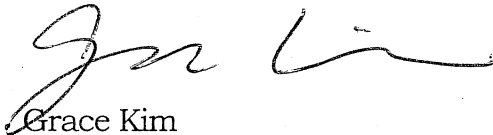
It is recommended that the Agency adopt Alternative A.

Prepared by:



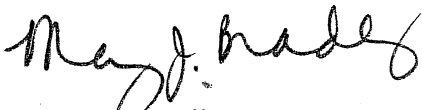
Charlene Sun
Budget Analyst

Reviewed by:



Grace Kim
Finance Manager/Budget

Reviewed by:



Mary J. Bradley
Agency Treasurer

Approved by:



Amy Chan
Executive Director-Secretary

Attachments

A. FY 2004/2005 Redevelopment Agency Budget Adoption Resolution

RESOLUTION NO. 100-04RA

**A RESOLUTION OF THE REDEVELOPMENT AGENCY OF
THE CITY OF SUNNYVALE ADOPTING THE BUDGET OF
THE REDEVELOPMENT AGENCY FOR FISCAL YEAR
JULY 1, 2004 TO JUNE 30, 2005**

WHEREAS, the proposed budget of the Redevelopment Agency of the City of Sunnyvale for the fiscal year 2004-05 was prepared and submitted to the Redevelopment Agency by the Executive Director on May 18, 2004;

NOW, THEREFORE, BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE THAT:

1. The budget of the Redevelopment Agency of the City of Sunnyvale for the fiscal year beginning on July 1, 2004, and ending on June 30, 2005, as submitted to the Redevelopment Agency by the Executive Director on May 18, 2004, is hereby approved and adopted as the budget of the Redevelopment Agency for the fiscal year 2004-05.

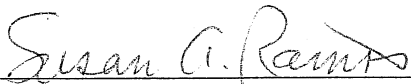
2. A copy of the budget hereby adopted, certified by the Secretary of the Redevelopment Agency, shall be filed with the Executive Director or designated representative. Copies of the certified budget shall be made available for the use of departments, offices and agencies of the Redevelopment Agency of the City of Sunnyvale.

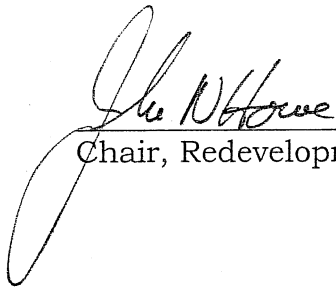
Adopted by the Redevelopment Agency of the City of Sunnyvale at a regular meeting held on June 15, 2004, by the following vote:

AYES: LEE, FOWLER, CHU, HOWE, MILLER, HAMILTON, SWEGLES
NOES: NONE
ABSENT: NONE


ATTEST:

APPROVED:


Clerk, Redevelopment Agency
(SEAL)


Chair, Redevelopment Agency

Certified as a true copy

By 
City Clerk of the City of Sunnyvale